A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics

HOMESERVE THE FUTURE OF HOME MAINTENANCE

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Abstract

The purpose of the work project is to present HomeServe plc as a valuable investment opportunity and at the same time analyze the potential risks involved in the transaction, to provide an objective recommendation.

In the individual part the Business Plan, financial forecast, and the capital structure are further explained and developed. In the Business Plan and forecast section a timeline of the acquisitions is presented, together with a forecast of revenue, Gross Margin and EBITDA, and Free Cash Flow. In the capital structure section, a valuation of the debt structure is presented. Moreover, in this section the four valuation methods (Trading comparable, precedent transactions, and two different DCF) used for the valuation of the company are presented and analyzed.

Key words: Private Equity, Home Maintenance Market, HVAC Market, Market Place, Investment Opportunity,

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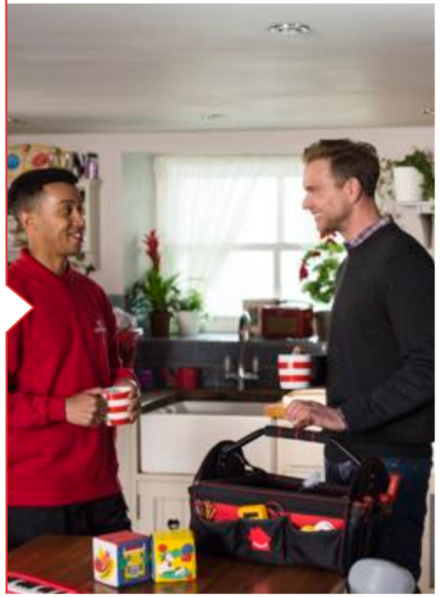


Group Part

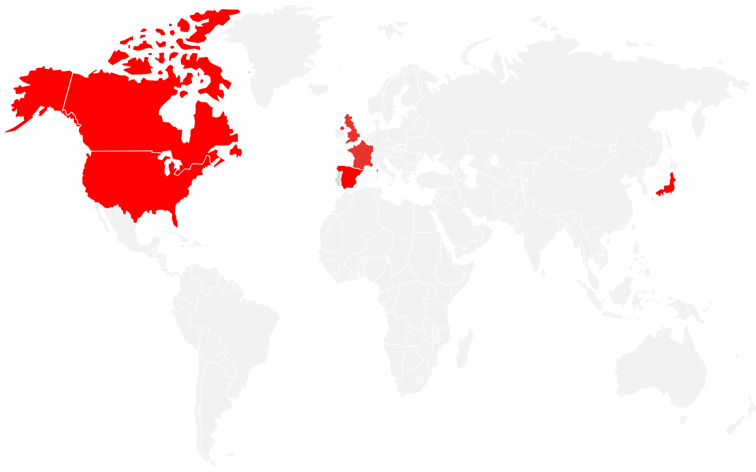
Company Profile

HomeServe's vision is to become the world most trusted provider of home improvements and repairs

About HomeServe

- HomeServe PLC (LSE: HSV) is a **home maintenance** services provider, which offers emergency services and insured repair solutions to households.
- **Founded in 1853** as The South Staffordshire Waterworks Company, it currently has **7.201 employees**.
- The company has its **headquarters in Walsall (GB).**
- HomeServe sells its services either directly to homeowners or indirectly through tradespeople and insurance companies.

Geographies



North America I UK I France I Spain I Japan

Financial Results

In (£ m)	FY15	FY16	FY17	FY18	FY19	FY20
Revenues	584	633	785	899	1,003	1,132
COGS	(332)	(356)	(428)	(475)	(525)	(589)
EBITDA	109	122	154	197	227	270
Net Profit	56	61	74	95	108	105
NWC	11.4	9.9	1.6	11.5	49.3	92.7
Capex	(52.8)	(63.9)	(58.5)	(125.3)	(108.1)	(82.5)
Net Debt	63.5	168.6	260.8	237.3	304.7	509

Management

Richard Harpin (55)
Chief Executive
27
Years

David Bower (48)
CFO
15
Years

Tom Rusin (51)
CEO, Membership
9
Years

Partnerships

- HomesServe's strategy is based on long-term relationships with partners whose brands are related to its products (e.g. utilities and insurance companies)
- Network of 1,000 Affinity partners (utilities company, underwriters, heating manufacturers)
- Key partners' benefits include earned commissions and reliable service for clients

Global Business Lines

HomeServe reaches homeowners through two global business lines

	Membership	HVAC	Home Expert [1]
Description	• HomeServe sells **contracts** and **insurance** policies to homeowners to cover a range of **home emergencies** via subscription-based Membership services, acting as an **intermediary** • HomeServe does not take any material insurance risk	• A **complete solution for the installation, repair, maintenance and replacement** of heating, ventilation and air conditioning • Complementary to the Membership business • Gives HomeServe new opportunities to sell Membership policies	• **Online marketplace to find checked and reviewed local tradespeople** for a broad range of home repairs and improvements • HomeServe **matches tradespeople with consumers** in their local area via the company's owned platforms Checkatrade (UK), Habitissimo (Spain), and eLocal (North America)
Revenue Stream [2] & Contracted Customers	**Revenue Stream** (Policy Income) / **Contracted Customers** Intermediary commissions ← Underwriter Repair income ← Underwriters and B2B contracted parties Home Assistance ← End consumer (Homeowner)	**Revenue Stream** / **Contracted Customers** Provision of installation services ← End consumer (Homeowner)	**Revenue Stream** / **Contracted Customers** Website subscriptions ← Tradespeople Directory advertising fees ← Tradespeople Lead generation ← Tradespeople
End Con-sumer	**Homeowners**	**Homeowners**	**Homeowners**
Who decides what to do?	• **Insurance Company**: decides what is insured (e.g. pipelines, switches etc.) and the claims limit (number of claims and amount covered) • **HomeServe**: HomeServe decides, what service or repair is needed	• **HomeServe**: The company decides on how to install, repair, maintain, or replace a device	• **Tradespeople**: Tradespeople decide on how to repair or maintain a device in the homeowner's house

Notes: [1] HomeServe refers to Membership and HVAC as one business line; [2] More details on each revenue stream in Appendix I

Historical Financials

HomeServe's buy-and-build strategy and synergies between business areas improved margins

1 **Membership & HVAC**
Since FY18, HomeServe considered revenue from Membership and HVAC as two separate business lines. Up to FY17 they were accounted under a common caption because HVAC wasn't considered a main growth driver for revenue.

2 **HVAC & Home Expert**
FY19 and FY20 were significantly important for HVAC and Home Expert businesses. Pursuing the buy-and-build strategy, both business areas had an outstanding growth (81% and 78%, respectively).

3 **Revenue Growth**
The end of the partnership with Endesa in May 2018 had a significant impact on the business lowering revenue growth. Additionally, HomeServe had been slow in acquiring new companies during the year (2018), causing an impact by -2% on revenues.

4 **Adjusted EBITDA**
Compared to Adjusted EBITDA, the Net Profit growth is slower than expected due to the company income tax rate in the overseas countries which are higher than UK tax rate of 19%. Pursuing growth in North America, this effect will become more relevant in the future. EBITDA growth is not representative as part of it comes from the application of the new IFRS 16. According to the new legislation, operating leases charges that were previously shown within operating costs are now part of depreciation and interest charges.

New Business Lines Segmentation

Income Statement [1] (in£m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other [2]	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
Revenues	**568.3**	**584.2**	**633.2**	**785.0**	**899.7**	**1,003.6**	**1,132.3**
Growth		*3%*	*8%*	*24%*	*15%*	*12%*	*13%*
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
Gross Profit	**270.2**	**251.7**	**277.1**	**357.0**	**424.3**	**478.1**	**543.2**
Gross margin	*48%*	*43%*	*44%*	*45%*	*47%*	*48%*	*48%*
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
Adj. EBITDA margin	*19%*	*19%*	*19%*	*20%*	*22%*	*22%*	*24%*
Net Income	**10.0**	**56.1**	**61.6**	**74.4**	**95.9**	**108.3**	**105.8**
Profit margin	*2%*	*10%*	*10%*	*9%*	*11%*	*11%*	*9%*

Notes: [1] Detailed Income Statement in Appendix II; [2] For simplicity, the caption New Market is accounted in Other Revenue until 2017 since this caption appeared for the first time in 2018 on the income statement

Historical Financials

HomeServe showed great ability taking decision to maintain profitability during the pandemic

1

Net Debt

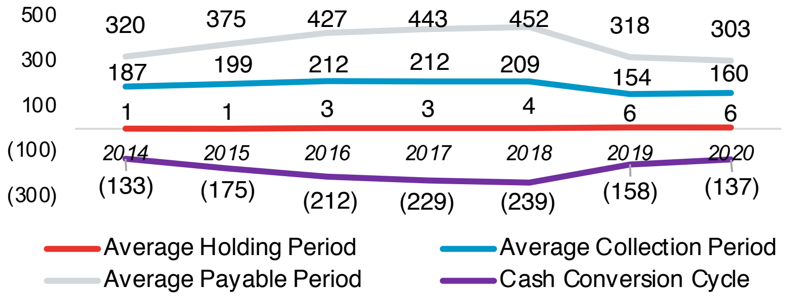
HomeServe's Net Debt have increased over the period from £41.8m in FY14 to £509m in FY20. However, Net Debt/EBITDA stays in the range targeted by the company (1-2x).

The increase of debt is partially offset by the increase of cash, needed mainly to exploit possible M&A activities which could arise. The only decrease of Net Debt/EBITDA in FY18 is due to a significant debt repayment of £ 226.5m.

2

NWC (excl. Cash) & Cash Conversion Cycle

Inventories are low due to the nature of the business. NWC is mainly composed by the difference between payables and receivables. It has been increasing along all the years (except for FY17) due to a greater increase of receivables over payables, mainly between FY19 and FY20 (further details in Appendix VII). Further, the Average Payable Period experienced a decrease in the last three years (552 days (FY17) to 303 (FY20)). If this process continues in the future, it could affect HomeServe's profitability in the long run.



New Business Lines Segmentation

Balance Sheet [1] (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Cash and cash equivalents	96.2	74.7	54.2	46.2	57.8	72.6	131.2
as % of revenues	*17%*	*13%*	*9%*	*6%*	*6%*	*7%*	*12%*
NWC excl. Cash	(5.9)	11.4	9.9	1.6	11.5	49.3	92.7
Total Debt	138	138.2	222.8	307	295.1	377.3	640.2
Net Debt	41.8	63.5	168.6	260.8	237.3	304.7	509
Net Debt/EBITDA	0.39x	0.58x	1.37x	1.69x	1.20x	1.37x	1.85x

Cash Flow Statement [2] (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
Income Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
Change in NWC Exl. Cash		(17.3)	1.5	8.3	(9.9)	(37.8)	(43.4)
Adj. Norm. Operating Cash Flow	**92.5**	**71.5**	**103.2**	**138.6**	**160.3**	**152.9**	**199.8**
as % of revenues	*16%*	*12%*	*16%*	*18%*	*18%*	*15%*	*18%*
CAPEX	**(33.6)**	**(52.8)**	**(63.9)**	**(58.5)**	**(125.3)**	**(108.1)**	**(82.5)**
as % of revenues	*(6%)*	*(9%)*	*(10%)*	*(7%)*	*(14%)*	*(11%)*	*(7%)*
Net acquisition of subsidiaries	(2.4)	(1.1)	(5.3)	(75.9)	(50.3)	(37.5)	(140.6)
Cash Flow from Investing	**(35.5)**	**(58.4)**	**(69.2)**	**(158.8)**	**(174.5)**	**(158.4)**	**(217.6)**
Bank and other loans[1]	13.1	3.4	82.7	73.5	(8.6)	73.7	181.8
Cash Flow from Financing	**(22.9)**	**(30)**	**(53)**	**33.1**	**59.8**	**10.3**	**85.3**

Notes: [1] Detailed Balance Sheet in Appendix VII; [2] Detailed Cash Flow Statement in Appendix III

Geographical Overview, Market Size, and Growth Drivers

The different markets HomeServe operates in are growing at sound CAGRs, depicting huge opportunities for the future

Geographical Overview

Geography	Description	Markets
North America	• Highest growth potential • HomeServe's most established HVAC business • Market leader in NA	**Home Repairs & Impr.** **2020-2025 CAGR 5.5%** **HVAC** **2020-2025 CAGR 6.7%**
United Kingdom	• Most mature membership business • Only market with a bigger competitor (British Gas)	**Home Repairs & Impr.** **2020-2025 CAGR 3.5%** 1) **HVAC** **2020-2025 CAGR 6.0%** 2)
Spain	• Market-leading claims business • Few competitors in the plumbing & electric sectors	**Home Repairs & Impr.** **2020-2025 CAGR 3.5%** 1) **HVAC** **2020-2025 CAGR 6.0%** 2)
France	• Well established Membership business with highest customer retention rates • Few direct competitors	**Home Repairs & Impr.** **2020-2025 CAGR 3.5%** 1) **HVAC** **2020-2025 CAGR 6.0%** 2)
Japan	• New Market & business development with innovation activities include a joint venture with Mitsubishi Corp	**Home Repairs & Impr.** **2020-2025 CAGR > 4.5%** 3) **HVAC** **2020-2025 CAGR 6.0%** 3)

Market Size [4)]

Home Repairs & Improvements
$450 bn

Home Assistance
$14 bn

Home repairs and improvements

- Broader market, covering trades like plumbing or kitchen fitting
- Expanding market since an increasing number of services are invented to satisfy the needs of modern homeowners

Home Assistance

- Stable market in the geographies HomeServe is operating in
- Focus on plumbing, heating and electrics
- Key to market growth is to expand into new regions with high quality housing stock

Growth & Cost Drivers

Growth Drivers

1. Rise in the adoption of Smartphones
2. Increase in number of Households
3. Consumer Convenience for Home Services Needs
4. Increasing popularity of Market Places
5. Utilities and Manufacturers as Affinity Partners
6. Adoption of Membership Subscriptions

Cost Drivers

1. Labor costs
2. Acquisition of new customers
3. Platform maintenance expenses
4. Price of supplies

Notes: 1) CAGR refers to European CAGR; 2) Reflects adjusted global CAGR of 4.5%; 3) Figures reflect APAC Market growth; 4) Market size estimates incorporate the UK, US, France and Spain
Sources: HomeServe, Global Market Insights, Statista, Business Wire, Prescient & Strategic Intelligence

Competitive Market

Highly competitive market with few well-established players

Porter's 5 forces

Impact

Threat of new Entrants
- High threat of new entrants in the marketplace sector However, establishing an equal market presence and reputation is a challenge for new entrants in the Home Maintenance sector

Power of Suppliers
- As there are several available suppliers, they have relatively low power

Power of Buyers
- Buyers seek the best offerings available by paying the minimum price as possible
- This pressure might grow when comparing trades online

Substitute Services
- Relatively few substitute services available
- High switching costs for customers as they do not know the quality of the substitute service yet

Competition in the Industry
- HomeServe's industry is composed of few well-established players with strong competition
- Low switching costs to competitors due to similar services
- However, HomeServe's approach to form partnerships with utility companies is unique

Low Medium High

Competitors Analysis

Company	LFY Sales	Geographies	Marketplace	Membership	Brands
ANGI HOMESERVICES	$ 1,397.6m	US, Canada, Germany, The Netherlands	✓	✓	myBuilder.com, fixd, Angie's list, travaux, HomeStars, MyHammer, Werkspot, handy
amazon	$ 321,782m	US, UK* UAE	✓	✗	amazon home services
British Gas	£ 8,741.8m	UK	✓	✓	Local Heroes
frontdoor	$ 1,418.0m	US	✓	✓	American Home Shield, HSA Home Warranty, OneGuard, Landmark Home Warranty, Candu
American Water	$ 3,690.0m	US	✗	✓	
enercare	$ 1,310.5m	Canada, US	✗	✓	
ARS Rescue Rooter	$ 1,903.0m	US	✗	✗	
JBR Japan Best Rescue System	$ 112.16m	Japan	✗	✓	

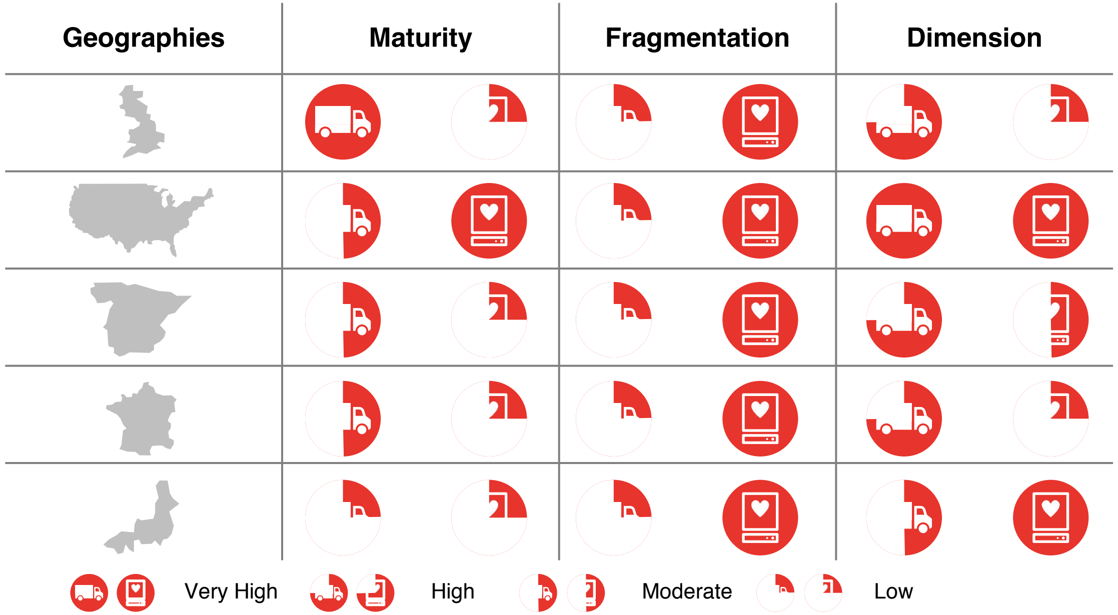
Sources: Company Websites, Verified Market Research, Capital IQ

* Refers to Amazon Home Services

Expanding into existing markets via new partnerships and acquiring businesses

Strong focus on large and promising markets such as North America and Japan

Current Status



- **UK** – Mature market, where HomeServe has a strong market leader position. HomeServe is already working with most of the UK utility companies. The main strategy will be focused on implementing marketing campaigns and cutting operating costs.
- **USA** – The largest and most fragmented market, where the company has acquired small targets to increase sales. It offers opportunities to partner with utility companies and to acquire further HVAC businesses.
- **Spain & France** – Two smaller markets which offer good opportunities to grow due to the fragmentation in the HVAC market.
- **Japan** – Japan business is in an infant phase. The Joint Venture with Mitsubishi has signed a first partnership with an electric utility company.

Membership

Inorganic Growth – New Partnership Agreements

- A key feature of the growth strategy is to **strengthen the market position in the fastest growing market** – USA
- Through new strategic partnerships with utility companies HomeServe will be able to **increase its competitive position** and get new customers
- The main goal is to **expand in the most populated American states** where HomeServe has few partnerships
- Pursuing the expansion in Canada, after the successful partnerships with the Municipality of Ottawa

HVAC

Inorganic Growth – Buy & Bild

- The global HVAC market is expected to increase at a **3.9% CAGR until 2030.**
- **Highly fragmented market** in all the geographies where HomeServe is operating. HomeServe has the opportunity to become one of the key players.
- The Buy-and-Build strategy can **rapidly increase revenue** and operating income.
- The North American Market offers the best opportunities for rapid growth.
- Acquisitions in HVAC Business Line can also expose HomeServe to new Membership contracts.

Strategy to enter new markets

Entering the new geographies through a Joint Venture and signing collaboration agreements with existing and new partners will generate strong revenue

Joint Ventures & Partnerships

Overall Strategy and Execution

- **Joint Ventures**: A proven way to enter new markets is by forming a Joint venture structure such as that employed with Japan. It diversifies risk, minimizes investment, and reduces costs by 50%.
- After a successful formation of a Joint Venture and having set foot in the new market, HomeServe can find further **companies to partner with**.
- The expansion of the **HVAC business** will be carried out through subcontracting HVAC businesses.
- Close collaboration with the already existing **International development team** of HomeServe.
- **Benefits for partners** include: Commissions for every policy HomeServe secures through them and enhanced service for their customers.
- Expanding the **Home Experts platform** in these countries

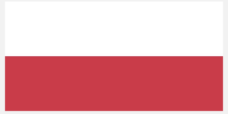
How can HomeServe access their customer base?

HomeServe uses the partners to **contact customers**:

- Partners offer HomeServe's services in their **call centers** or **affiliate links** on their webpages
- Direct **mail campaigns**
- Transferring **prospect sales calls** to HomeServe

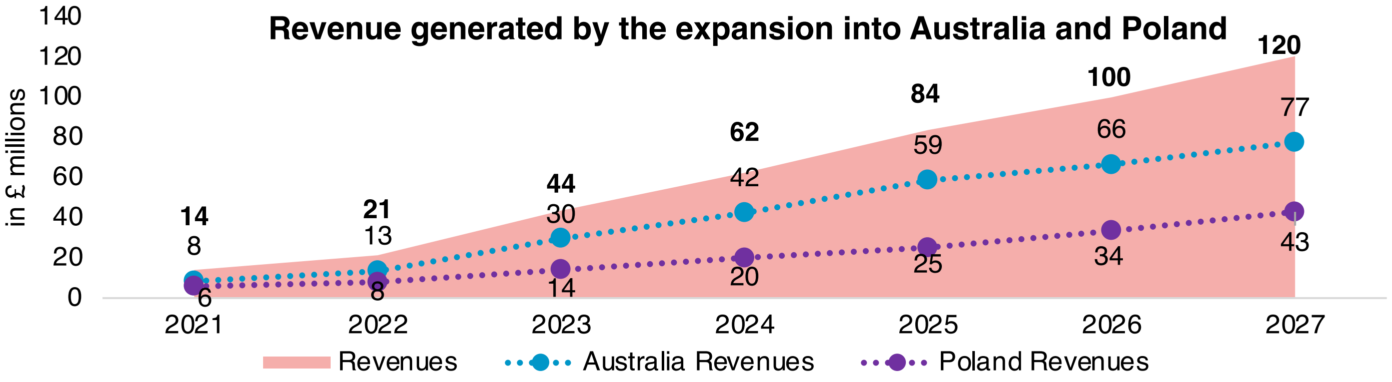
Strategy Rationale

- **Australia** and **Poland** show a high diversify of companies that HomeServe is already in a partnership in other countries.
- Thus, pursuing the strategy of entering a new market by forming a joint venture and partnerships, Australia and Poland seem to be a **good fit.**



Expected Results

- **Revenue growth** by £ 120m and **increasing household base** by 785k by 2027
- More **diversified revenue split** reducing UK's and North America's share of 33% and 38%, respectively
- **Broader geographic reach**
- Increased **global presence** and **reputation**



Unification and Consolidation of Home Experts Platforms

The consolidation of HomeServe's three platforms will result in higher brand awareness and cost cutting

Current Status

Currently, HomeServe owns 3 platforms operating under 2 different business models, the subscription-based model and the lead generation model.

- **Checkatrade**: subscription-based business in the UK, meaning that tradespeople pay a monthly fee to be displayed on the platform. Homeowners choose from a directory of checked trades. This model has proven to be ideal for substantial home improvement projects.
- **Habitissimo**: lead generation-based business in Spain, Italy, Portugal, and LATAM. Homeowners post their job listing and up to 4 tradesmen can bid for the lead. Tradespeople pay for each lead.
- **eLocal**: lead generation-based model in the US. eLocal generates leads mainly via calls from consumers with HomeServe call center workers matching the consumers to professionals.

Strategy Rationale

The consolidation of the 3 platforms will help to:

- **cut infrastructure and operational costs**
- **enhance HomeServe's brand awareness** on a global view is perceived, attracting customers
- **optimize marketing strategy**, enable **data-rich marketing** as well as eventually lower both **marketing payback period** (currently at 9-18 months) and marketing costs as % of revenue
- **deliver exceptional customer service** by focusing on value-adding projects
- **optimize** human resources and reduce HR related costs
- **implement** a more **effective distribution strategy**

Execution & Objectives

- **Achieve a stronger foothold in existing markets** by consolidating the three platforms.
- **Entering new markets** after the completion of a successful beta-phase (~3-4 months)
- Moving towards a subscription model that **combines the Directory and Lead Generations model** with the Directory model taking the majority: Homeowners can choose from a directory of trades for substantial home improvement projects. The lead generation model will mainly be used for smaller jobs. → This combination gives HomeServe **more certainty** as membership fees are recognized evenly over the term of contract.
- The call assistance model (eLocal model) will eventually be **replaced by a direct listing** done by the homeowner in the platform.

Expected Results

- **Increased Gross Margin** in Home Experts business line from currently 25.4% to 39.6% by reducing **infrastructure, maintenance, and operational costs by approx. 20%.** The impact on the overall Adjusted EBITDA amounts to 1.%, from 24.5% to 25.5%
- Once HomeServe operates the consolidated platform, it is **easier to launch the platform in other countries**
- HomeServe will be able to create a platform with a **more attractive user interface** thanks to more resources and investments available for one single platform

Source: Accenture

Digitize Contact Centers

Investments in Call Center digitalization will increase profitability margins

Current Status

- HomeServe has **local call centers** in each country to handle claims and inquiries. This requires a diverse **international workforce**, around 2k contact center agents.
- Estimates confirm that the real cost of a contact center agent to operate is around £ 25/hr – including key figures like salary, equipment, and space.
- This involves huge costs to keep the high-quality service provided by HomeServe– £100 m spent to run contact centers.
- HomeServe has recently implemented a CRM system (Pegasystem), which helped to increase the quality and the income per customer as well as increasing the service quality.

£ 25/hr
Agent Costs

c. £ 100m
Contact Center Costs

Rationale

- Service providers can reduce contact center costs by up to 40% and increase customer satisfaction by fully implementing 4.0 technologies.
- The time per call can be **reduced up to 35%** while **increasing efficiency and effectiveness**.
- Moreover, deeper use of data analytics can **increase product customization**, exploit cross-selling opportunities, and match the "individual" customer character with the "individual" agent character, strengthening rapports and increasing customer satisfaction.

-25%
Contact Center Cost

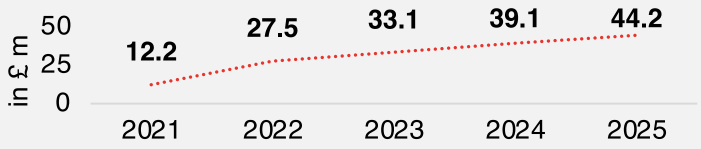
5-10%
Customer Satisfaction

5-10%
Revenue per Customer

Strategy

- A key role will be played by virtual assistants (e.g. Alexa, Google Now, or Siri) and by virtual agents who can care about follow-up work, so that the human agent is available for the next call. There will be fewer agents, but with higher qualifications and focus on more important tasks.
- Introducing chat bots and robotic process automation (e.g. monitor/supervise and optimize agent performance so that coaching agents can spend more time on coaching activities), which will have a relatively low price and will **reduce the time per call by 30-60s**.
- **Investing in data analytics for marketing** and contact center operations from the first year on, attracting new customers and maintaining higher profits.
- In 2022, HomeServe is expected to save 19% of its COGS.

Cost savings from Call Centers [1]



Note: [1] Depicts the savings per year in comparison to call center staff costs without the digitization strategy.
Sources: BCG, McKinsey

Financials Forecast

Adjusted EBITDA Margin is mainly increasing due to the consolidation of Home Experts platforms and the digitization of call centers, resulting in a sound Free Cash Flow

Business Line	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR 20-25
Membership	840	911	973	1,085	1,190	1,345	1,525	1,690	1,891	2,134	11.7%
HVAC	32	45	81	173	269	378	484	592	616	640	48.9%
Home Expert	19	40	72	108	162	226	294	323	356	391	35.1%
Other & Intersegment	9	8	7	7	7	7	8	8	8	8	3.0%
Total Revenue	**900**	**1,004**	**1,132**	**1,373**	**1,628**	**1,957**	**2,310**	**2,614**	**2,871**	**3,173**	**18.2%**
Gross Profit	424	478	543	663	793	951	1,122	1,272	1,397	1,545	18.5%
Gross Margin	*47.2%*	*47.6%*	*48.0%*	*48.3%*	*48.7%*	*48.6%*	*48.6%*	*48.6%*	*48.7%*	*48.7%*	
SG&A	(228)	(251)	(273)	(388)	(376)	(452)	(534)	(604)	(663)	(733)	**17.2%**
EBITDA	**197**	**227**	**270**	**275**	**417**	**499**	**588**	**667**	**734**	**812**	**19.9%**
Exceptional items	-	5	(8)	(65)	-	-	-	-	-	-	
Adjusted EBITDA	**197**	**222**	**277**	**340**	**417**	**499**	**588**	**667**	**734**	**812**	**19.2%**
Adjusted EBITDA Margin	*21.9%*	*22.1%*	*24.5%*	*24.7%*	*25.6%*	*25.5%*	*25.5%*	*25.5%*	*25.6%*	*25.6%*	
Change in NWC	(10)	(38)	(43)	(7)	(44)	(52)	(62)	(65)	(32)	(38)	
Tax	(29)	(34)	(36)	(25)	(34)	(42)	(50)	(56)	(59)	(56)	
Maintenance Capex	(71)	(60)	(21)	(70)	(83)	(99)	(117)	(133)	(146)	(161)	
Expansion Capex	(54)	(48)	(61)	(75)	(114)	(136)	(160)	(182)	(200)	(222)	
FCF to Firm	**32**	**43**	**115**	**163**	**143**	**170**	**198**	**231**	**297**	**335**	**15.0%**

Drivers

Revenue Drivers

- **Membership**: Revenue is mainly driven inorganically due to entering new markets (Australia & Poland) and a plan of new strategic agreements with utilities in areas where HomeServe has a low penetration
- **HVAC**: HVAC revenue is driven by increasing demand and new regulation combined with the acquisitions of HVAC businesses, especially in the US.
- **Home Experts**: Home Experts revenue growth is mainly driven by organic growth as the on-demand for home services are increasing by a CAGR of c.50% until 2022.

EBITDA Drivers

- **COGS**: Gross Margin Improvement is mainly driven by a slight improvement of 0.4% in the Gross Margin of the Membership & HVAC business and the strong Home Experts Gross Margin improvement from 25.4% (FY20) to 36.9% (FY25) due to platform consolidation.
- **SG&A and Exceptional Items**: Digitization of call centers is expected to reduce staff costs by 19%. SG&A costs are further decreasing due to cost synergies evolving from HVAC acquisitions. Exceptional items in 2021 include two non-recurring costs, the consolidation cost of Home Experts platforms and the cost of the call center digitization.

Capital Structure I Sources and Uses

The final capital structure consists in 6.8x Equity and 4.5x Senior Secured Debt taken in different currencies to hedge FX risk

Total Sources	£ m	xEBITDA	% Total
Loan Euro	311	1.1x	
Loan USD	502	1.8x	
Loan UK	436	1.6x	
Total debt	**1,248.3**	**4.5x**	**40.0%**
FRI	**1,652.9**	**6.0x**	**52.9%**
Fund	1,552.0		
Richard Harpin	101.0		
Ordinary Equity	**220.9**	**0.8x**	**7.1%**
Fund	176.3		
Richard Harpin	11.5		
Sweet Equity	33.1		
Total Equity	**1,873.9**	**6.8x**	60.0%
Total Sources	**3,122.2**	**11.3x**	**100.00%**

Total Uses	£ m	% Total
EBITDA 2020	277	
Multiple	10.5x	
Enterprise Value	**2,917.9**	93.0%
Fees:		
1) DD	3%	87.5
2) Financial	2%	58.4
3) Others	2%	58.4
Fees	**204.3**	7.0%
Total Uses		**3,122.2**

Uses of Funds

- **Total Uses amounts to £ 3,122.2m**. Uses amount is supposed to be paid in cash. 93% of total uses is attributable to the EV plus 7% of fees.
- The **EV** is based on a 10.5x EBITDA multiple, amounting to **£ 2,918.1m**.
- **Earn-out**: if the company is able to increase EBITDA Margin by 1% before 2025, the fund is obliged to give further £ 106,25 m to the sellers.

Debt Characteristics

Type of Debt	Repayment
• 1.1x EBITDA senior secured debt in EUR • 7 years term at +4.00% over 3Y EUR swap rate	• Bullet debt repaid at the end of the 7th year
• 1.8x EBITDA senior secured debt in USD • 7 years term at +4.50% over 3Y USD swap rate	• Bullet debt repaid at the end of the 7th year
• 1.6x EBITDA senior secured debt in GBP • 7 years term at +4.25% over 3Y GBP swap rate	• Bullet debt repaid at the end of the 7th year
• CAPEX Facility with a commitment fee of 1.7% at +4.25% over 3Y GBP swap rate • It will cover 50% of CAPEX needs during the first 3 years, amounting to £ 325m	• 3 years drawdown period and 3 years repayment period

Equity Characteristics

Fund 92%

- FRI at 6x EBITDA (= £ 1.7bn), 94% owned by institutional investors
- PIK Element settled at 10%
- Ordinary shares at 0.8x EBITDA (= £ 221m), 80% owned by the Fund

Harpin 6%

- 6% of FRI at 10% PIK Element
- 6% of ordinary shares (See next slide)

Management 2%

- Sweet Equity at 0.12x EBITDA, (= £ 33m), will account for 15% of ordinary shares

Capital Structure I Equity Structure

Equity roll-over for Richard Harpin, founder and one of the major shareholders of the company, is required. Harpin and Management are subjected to vesting rules.

Equity Structure

1

Instrument	Structure 1		Structure 2		Structure 3	
	£ m	% Total	£ m	% Total	£ m	% Total
Institutional Strip	**1,840.97**	*98%*	**1,728.53**	*92%*	**1,728.53**	*92%*
Richard Harpin	0	*0%*	**112.45**	*6%*	**112.45**	*6%*
Ordinary Shares			11.47		112.45	
FRI			100.98			
Sweet Equity	**33.14**	*2%*	**33.14**	*2%*	**33.14**	*2%*
Total Equity	**1,874.11**	*100%*	**1,874.11**	*100%*	**1,874.11**	*100%*

2

Name	Annual Salary	Sweet Equity	Price
Richard Harpin	4.03	3.7%	8.17
David Bower	1.57	1.6%	3.53
Tom Rusin	3.24	2.7%	5.96
C-Level	7.73	7%	15.46
Total	**16.57**	**15%**	**33.14**

3

Vesting Rules (stake)	2021	2022	2023	2024	2025	2026	2027
% of vested Sweet Equity	0%	25%	44%	58%	100%	100%	100%
As % of Ordinary Equity	*0%*	*4%*	*7%*	*9%*	*15%*	*15%*	*15%*
% of vested equity Harpin	25%	50%	75%	100%	100%	100%	100%
As % of Ordinary Equity	*1%*	*3%*	*4%*	*5%*	*5%*	*5%*	*5%*

1

Structure 1: Does not consider a roll-over for R. Harpin (CEO) who owns 14% of the shares. In this case, Harpin will own 3.7% of the sweet equity.
Structure 2: This solution considers a **partial roll-over of Harpin's equity**. To better align Harpin's interests with those of the fund, a co-investment has been projected. Harpin will keep 6% of the total equity.
Structure 3: Does consider a roll over for Harpin. However, **it does not consider a proportion into FRI.** Harpin might not accept this structure since he will be paid only after the fund has been paid. Agency risk might arise.

2

Management participation in Sweet Equity amounts to £ 33.14m. The shares price corresponds to **2x the value of management annual salaries**. This investment is projected to return **a MM between 18.4x – 21.5x**.
Sweet Equity is split between the management in the following way:

- **8% held by Tier 1 management** for a total value of £ 17.67m, with returns at exit expected to amount to £ 323.83m.
- **7% held by Tier 2 management** for a total value of £ 15.46m with returns at exit is expected to amount to £ 287.17m.

3

Sweet Equity and **Harpin's Equity** are both subject to a Vesting Period with different vesting horizons:

- **Harpin's Equity** is being vested on a four years horizon starting in 2021. Each year, 25% of the founder's equity will be vested.
- **Sweet Equity** vesting schedule is based on a three-year timetable with a 1-year "cliff". After one year, the equity vested will amount to 25% of the total, in the following years equity will be vested at a rate of 1/48 the value of the remaining amount per month (1/4 per year). In year 5, the equity is considered 100% vested.

Returns at Exit & Value Creation

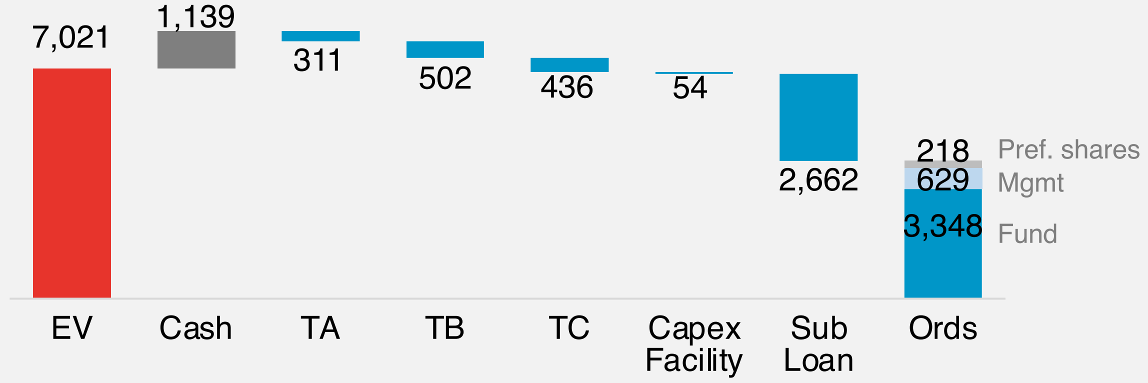
Exiting in 2025, the capital structure & business model predict an IRR of 27.6% and a Money Multiple of 3.4x for the fund, corresponding to a value creation of £ 5,188m

Returns

Returns (in £ m) – Exit year	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Management Exit Proceeds	112.2	225.5	357.8	503.5	629.3	732.9	369.8
Management Initial Equity	33.1	33.1	33.1	33.1	33.1	33.1	33.1
Management Returns	**3.4x**	**6.8x**	**10.8x**	**15.2x**	**19.0x**	**22.1x**	**11.2x**
IRR Management	**238%**	**161%**	**121%**	**97%**	**80%**	**68%**	**41%**
Returns Institutional Investor	2,304.1	3,077.8	3,969.5	4,951.6	5,848.0	6,649.3	4,992.2
Institutional Investor Initial Equity	1,728.5	1,728.5	1,728.5	1,728.5	1,728.5	1,728.5	1,728.5
Institutional Returns	**1.3x**	**1.8x**	**2.3x**	**2.9x**	**3.4x**	**3.8x**	**2.9x**
IRR Institutional	**33%**	**33%**	**32%**	**30%**	**28%**	**25%**	**16%**
Return Harpin	149.9	200.2	258.2	322.1	380.4	432.6	324.8
Harpin Initial Equity	112.4	112.4	112.4	112.4	112.4	112.4	112.4
Harpin Returns	**1.3x**	**1.8x**	**2.3x**	**2.9x**	**3.4x**	**3.8x**	**2.9x**
IRR Harpin	**33%**	**33%**	**32%**	**30%**	**28%**	**25%**	**16%**

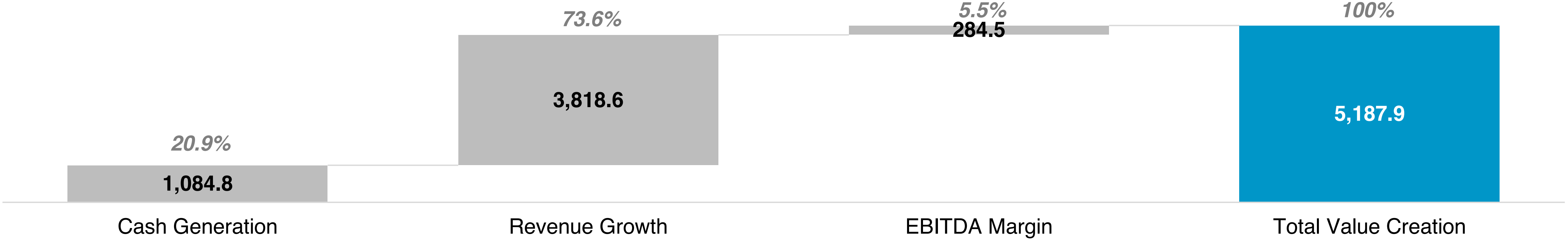
- At exit in 2025, a **3.4x MoM** and an **IRR of 27.6%** is expected for the fund.
- The **management** yields a **MoM of 19.0x** and an **IRR** of **80%**, with vesting rules already been applied. **Harpin** yields a **MoM of 3.4x** and an **IRR** of **28%**.

Exit Waterfall



- **Entry**: HomeServe is expected to be acquired at an EV of £ 2,918.1m. With 7% fees, **total uses** for this transaction amount to **£ 3,122.4m.**
- **Exit**: An expected exit in 2025 and an **Adj. EBITDA of £ 667.4m** will lead to an **EV of £7,021 m**, no multiple arbitrage assumed.

Return Breakdown (in £ m)



Exit Options Overview

Selling the company in parts appears to be a highly attractive exit strategy

	Trade Sale	Secondary Sale	Multiple partial sales	IPO
Pros	• Able to **buy** HomeServe **at a premium** due to potential synergies and strategic fit • Sponsor gets clean break from investment • Higher control over sale process than IPO • **Faster** execution **than IPO**	• Record **high dry powder levels** will facilitate big size deals • Management members will keep their positions (**management retention plan**) • Clean break from investment • Higher process control than in IPO • **Fastest** execution	• HomeServe's different business units might **attract different buyers**, being more likely to pay a higher price • Isolated valuation is likely to lead to a higher valuation of each business units, resulting in **multiple arbitrage**	• Gives **access** to a **greater market** • With proper market conditions and a well-planned exit, an IPO is likely to generate the **highest returns** • HomeServe depicts an **attractive target** for investors due to great corporate governance and strong financials after the PE operations
Cons	• **Limited number** of strategic acquirers able to pay **in cash** • **Resistance from management** if buyer chooses to replace them • Risk of competitors entering the bidding process only to access confidential information • Slower execution than Secondary Sale	• **Limited number** of partners for a transaction of this size (£7bn) that might further require a consortium investment • Normally pay **lower purchase prices**, since synergies between portfolio companies are difficult to achieve	• **Time consuming process** to find the right buyers for the different business units • **Possible synergies** between HomeServe's business units are at risk to **disappear** in case of a partial sale	• **Market volatility** might impact window of IPO • An IPO is typically an **expensive** and **time consuming** process • Probability of a **lock-up agreement**, preventing financial sponsors from selling shares following an IPO and a clean exit • Market uncertainty implies **risk of returns**
Illustrative candidates			Home Experts Membership & HVAC	

Sources: Marketwatch, Golding Capital Partners, Thomson Reuters

Individual Part

Business Line Timeline

Until 2025, HomeServe will acquire new HVAC companies, partner with new companies in the Membership business, and consolidate the three Home Experts platforms

2021

MEMBERSHIP

- Penetrate the **Polish** and **Australian**
- New Partnership Agreement with **Consumers Energy**, **Colorado Springs Utilitity** and **Truckee Meadows Water** in USA, **Iberdola** in Spain.

HVAC

- Acquisition of **Christianson** and **Sunset Air** in USA, **Multitec** in Spain and **Selleron** in France.

HOME EXPERT

2022

MEMBERSHIP

- New Partnership Agreement in existing markets: **Boston Water and Sewer Commission, Phoenix Water Service Department, Long Island Power Authority, Madison Water Utility** and **Toronto Hydro** in North America.

HVAC

- Acquisition of **The Bosworth Company** and **R.j Kielty** in USA, **Lasser** in Spain and **Provence Climatisation** in France.

HOME EXPERT

- Penetrate new potential market with the new consolidated platform

2023

MEMBERSHIP

- New Partnership Agreement in existing markets: **Eversource, Arizona Water Company and Hydro Quebec** in North America, **Kyushu Electric Power** in Japan.

HVAC

- Acquisition of **A.B May** and **Armstrong Air** in USA, **Antigua Casa** in Spain and **Maciejwosky** in France.

2024

MEMBERSHIP

- New Partnership Agreement in existing markets: **Detroit Water & Sewerage Department, City of Atlanta Department of Watershed Management, Aliant Energy, NV Energy, Union Gas** in in North America.

HVAC

- Acquisition of **Denali CS** and **Energy Air** in USA, **GarciGas** in Spain and **Gateau Ferres** in France.

2025

MEMBERSHIP

- New Partnership Agreement in existing markets: **Arizona Public Service**, **Fulton County** and **Montgomery Water** in North America.

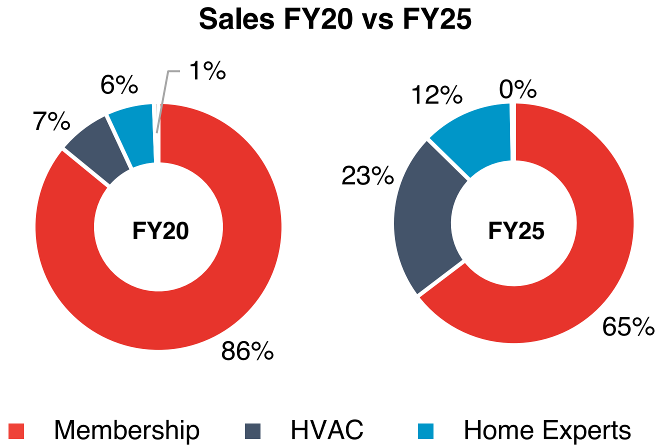
HVAC

- Acquisition of **Cambpell & Company** and **United Heating** in USA and **KenFri Energy** in Spain.

Revenue Forecast

Membership and HVAC revenue is mainly driven by inorganic growth through acquisitions and partnerships while Home Experts growth is organically driven

Business Line	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR 20-25
Membership	840	911	973	1,085	1,190	1,345	1,525	1,690	1,891	2,134	11.7%
HVAC	32	45	81	173	269	378	484	592	616	640	48.9%
Home Expert	19	40	72	108	162	226	294	323	356	391	35.1%
Other & Intersegment	9	8	7	7	7	7	8	8	8	8	3.0%
Total Revenue	**900**	**1,004**	**1,132**	**1,373**	**1,628**	**1,957**	**2,310**	**2,614**	**2,871**	**3,173**	**18.2%**
Growth		*12%*	*13%*	*21%*	*19%*	*20%*	*18%*	*13%*	*10%*	*11%*	



Revenue Drivers

Membership

- Penetration in new markets such as Australia and Poland, where the combination of cover awareness and willingness to pay is higher, together with a plan of new strategic agreements with utilities in areas where HomeServe has a low penetration will boost the revenue in the foreseeable period.
- Besides, acquiring HVAC businesses will generate cross selling opportunities, the use of data analytics and marketing campaigns will increase organic growth, achieving a CAGR of 11.7% from 2020-2025.

HVAC

- The increasing demand for HVAC system due to new regulation, especially in North America where new minimum energy efficiency regulations and standards have been approved, and the raising of global temperatures combined with the strategic acquisition plan will increase HVAC's revenue with a CAGR of 48.9% until 2025.
- Moreover, incentive of governments to upgrade old-fashioned HVAC systems with more efficient ones will help the revenue growth.

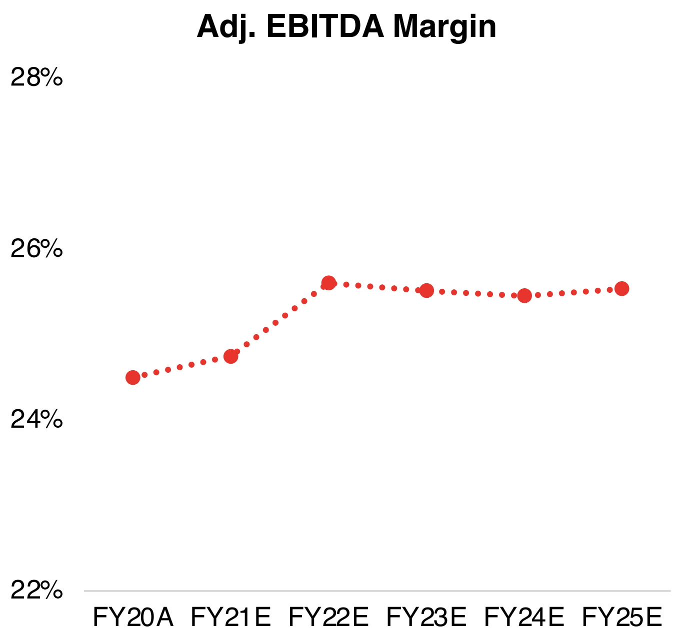
Home Experts

- Home Experts revenue growth is mainly driven by organic growth as the on-demand for home services are **increasing by a CAGR of c.50% until 2022**.
- After 2022 and the consolidation of the Home Experts platform, revenue is expected to further increase due to the expansion into new geographies such as Poland and Australia.
- In total, Home Experts revenue is anticipated to increase by a CAGR of 35.1% until 2025, as it is still in the launching – new geographies – and growth stage

Gross Margin and EBITDA Forecast

Gross Margin and EBITDA Margin are increasing mainly due to the consolidation of Home Experts platforms and the digitization of call centers

Business Line	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR 20-25
Gross Profit	424	478	543	663	793	951	1,122	1,272	1,397	1,545	**18.5%**
Gross Margin	*47.2%*	*47.6%*	*48.0%*	*48.3%*	*48.7%*	*48.6%*	*48.6%*	*48.6%*	*48.7%*	*48.7%*	
SG&A	(228)	(251)	(273)	(388)	(376)	(452)	(534)	(604)	(663)	(733)	**17.2%**
% Revenues	*-25.3%*	*-25.0%*	*-24.1%*	*-28.3%*	*-23.1%*	*-23.1%*	*-23.1%*	*-23.1%*	*-23.1%*	*-23.1%*	
EBITDA	**197**	**227**	**270**	**275**	**417**	**499**	**588**	**667**	**734**	**812**	**19.9%**
Exceptional items	-	5	(8)	(65)	-	-	-	-	-	-	
Adjusted EBITDA	**197**	**222**	**277**	**340**	**417**	**499**	**588**	**667**	**734**	**812**	**19.2%**
Adjusted EBITDA Margin	*21.9%*	*22.1%*	*24.5%*	*24.7%*	*25.6%*	*25.5%*	*25.5%*	*25.5%*	*25.6%*	*25.6%*	



EBITDA Drivers

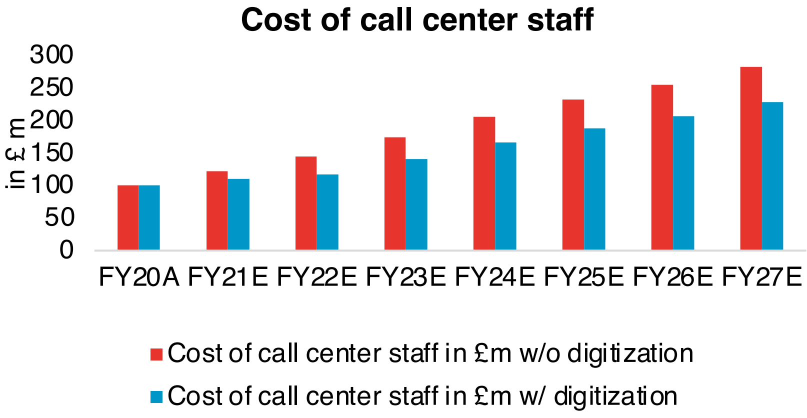
COGS

The Gross Margin improvement is mainly driven by:

- Slight improvement in the **Gross Margin from 49.5% in 2020 to 49.9% in 2025** for the Membership, HVAC and Other business lines. Strong improvement **Gross Margin from 25.4% in 2020 to 36.9% in 2025** for Home Experts. This is due to the consolidation of the Home Experts platforms into one, which allowed to decrease COGS.

SG&A & Exceptional Items

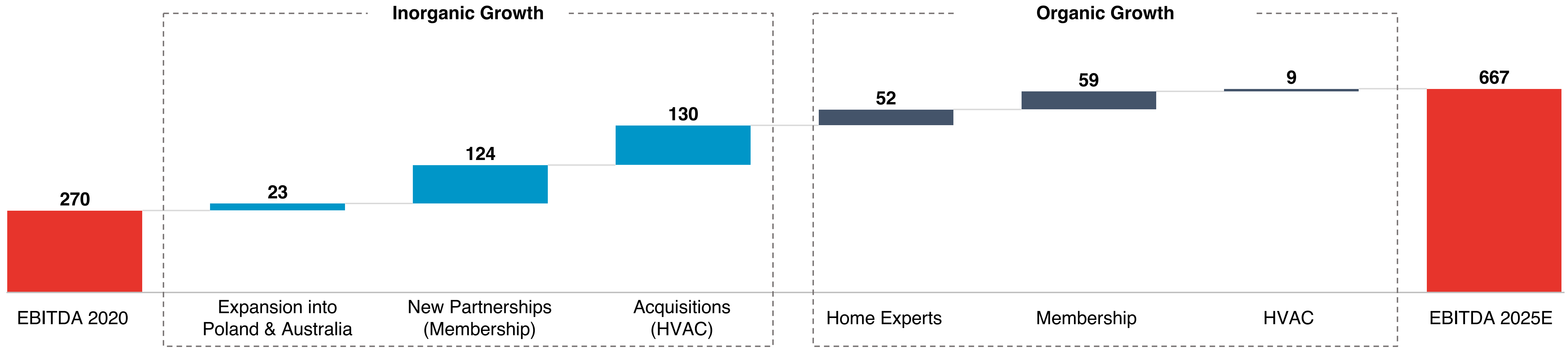
- The digitization project of HomeServe's call centers is expected to **reduce staff costs** (in SG&A) **by 19%** from £ 232m (estimated costs w/o digitization) to £ 188m in 2025.
- SG&A costs are further decreasing due to **cost synergies.**
- **Exceptional items** in 2021 include two non-recurring costs, consolidation of Home Experts platforms (£ 4.7m) and the cost of the call center digitalization (£ 60m)



EBITDA Bridge

Strong EBITDA growth is mainly driven by signing new partnerships and the acquisitions of HVAC companies

EBITDA Bridge



- The £270m EBITDA of HomeServe in 2020 was driven by organic growth and inorganic growth the expansion to Japan and the acquisition of eLocal.

- The expansion to Poland and Australia will allow HomeServe to increase revenues by £81m and EBITDA by £23m in 2025
- By signing 19 new partnerships with utilities in the US, 1 partnership with Iberdrola in Spain and 2 partnerships with Chugoku and Kyushu in Japan, the company will increase EBITDA by £124m in 2025.
- The largest amount of EBITDA is contributed by the acquisitions of 19 HVAC companies, mainly in North America.
- In total, these acquired companies are expected to contribute £130m to EBITDA

- The consolidation of eLocal, Checkatrade and Habitissimo into a single platform will result in an increase of £52m EBITDA in 2025. Further, Home Experts EBITDA margin will increase from 1.3% (2020) to 16.5% (2025), driven by the strong cost reduction from the consolidation.
- Further EBITDA growth of £68m in the Membership & HVAC business is mainly expected to be driven by market growth and an increasing Membership EBITDA margin from 25.3% (2020) to 26.4% (2025) and an increasing HVAC EBITDA margin from 25.6% (2020) to 26.7% (2025).

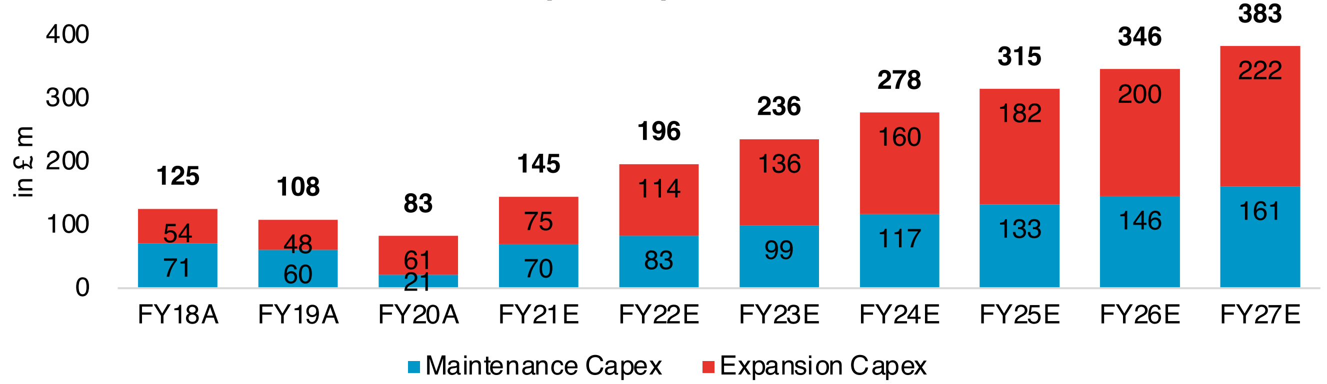
- The 2025 EBITDA in the exit year is expected to reach £667m, equal to c.2.5x the entry year
- c.70% of EBITDA growth is driven by inorganic growth

Free Cash Flow

Strong EBITDA growth will result in a sound cash flow generation

Cash Flow Before Financing	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
EBITDA	197	222	277	340	417	499	588	667	734	812
Adjustments:										
Change in NWC	(10)	(38)	(43)	(7)	(44)	(52)	(62)	(65)	(32)	(38)
Tax	(29)	(34)	(36)	(25)	(34)	(42)	(50)	(56)	(59)	(56)
Maintenance Capex	(71)	(60)	(21)	(70)	(83)	(99)	(117)	(133)	(146)	(161)
Expansion Capex	(54)	(48)	(61)	(75)	(114)	(136)	(160)	(182)	(200)	(222)
FCF to Firm	**32**	**43**	**115**	**163**	**143**	**170**	**198**	**231**	**297**	**335**
FCFF Growth		*33%*	*170%*	*42%*	*-12%*	*19%*	*17%*	*17%*	*28%*	*13%*

Capital Expenditures



Key Comments

Change in NWC

- Constant **increase in NWC** due to a higher increase in receivables and inventories than payables.
- **Average Collection Period** is estimated to decrease from c.160 (FY20) to c.150 (FY25) days, while **Average Payables Period** is expected to decline from 254 (FY20) to 210 (FY25) days.
- This results in an increase of CCC from c. -90 (FY20) to -55 (FY25) days.

Maintenance Capex

- Maintenance Capex amounts to c. 5% of revenue throughout the years, increasing from £21 m (FY20) to £133 m (FY25).

Expansion Capex

- Expansion Capex amounts to c. 27% of EBITDA, keeping the level of the previous years.
- At exit in FY25, Expansion Capex is estimated to reach $182 m.

FCF to Firm

- FCFF is forecasted to grow at a **CAGR of 15%** from FY20 to FY25, regardless of a minor fluctuation in FY22, that are mainly caused by the high increase in Expansion Capex
- At exit (FY25), FCFF reaches **£231 m.**

Capital Structure I Debt Structure

An analysis of a similar LBO precedent transaction was conducted to determine the debt spread

LBO Precedent Transaction

Target	Bidder
howden	KPS Capital Partners, LP
UK-based company that manufactures and provides maintenance services for industrial fans and process gas compressors.	US-based PE firm that invests in the range £ 100-500m in companies with at least £ 250m revenues.

Deal structure & financials

Revolving credit line	• $150 m • Libor +400bps • 60m maturity	TV	£1,461.7 m
Term Loan B	• $900m • Libor + 525 bps • 84m maturity	Payment structure	Cash
Bond	• $300 m • 11% coupon • 96m maturity	EBITDA multiple	8.96x
		Year	2019

Comparative Analysis & Effect on Debt Spread

	howden	HomeServe
Size	Revenues amount to £1,102m, growing at 4.16% CAGR	Revenues amount to £1,123m, growing at 12.18% CAGR
Assets	Totaling £2,041m, around 8% of total assets are high hard fixed assets	Totaling £1,783m, around 8% of total assets are high hard fixed assets
Debt to EBITDA (Post-transaction)	7.5x	4.5x
FCF	Stagnant CF over the past years. Forecasted FCF n.a.	Strong growing CF available to pay off debt
Competitive Analysis	Highly competitive and fragmented market. The company serves in several parts of the value chain	Highly competitive and fragmented market. HSV has reached a leading position which is hard to achieve for smaller competitors
Diversification	Highly geographically diversified, broadly diversified end consumer base	Moderately geographically diversified, serves a broad range of customers

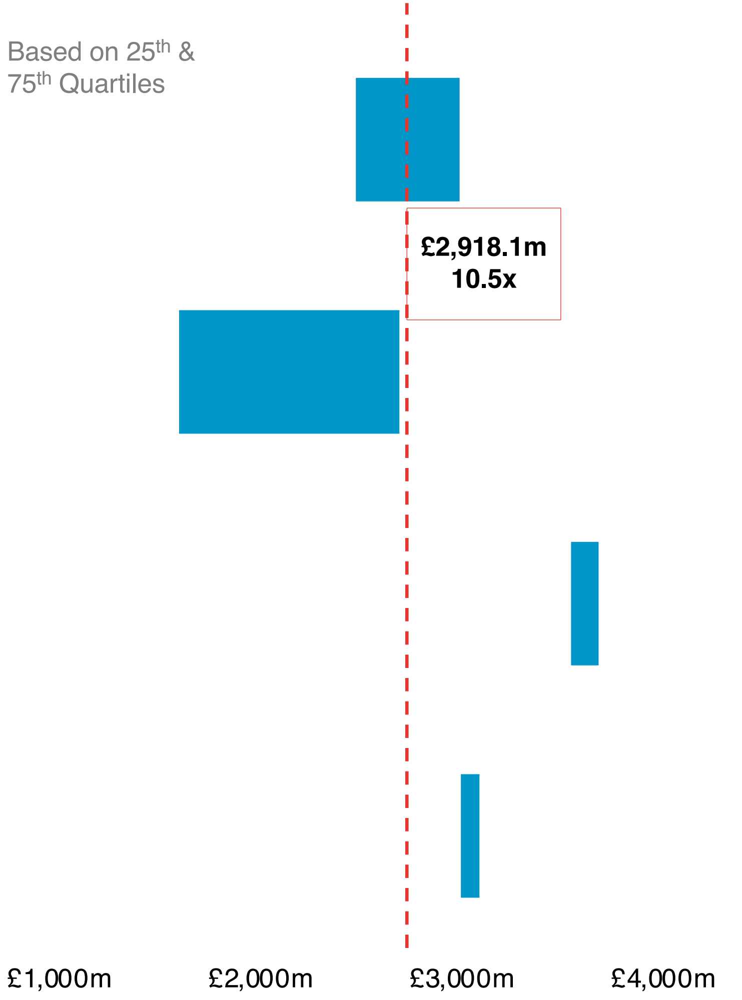
- Howden and HomeServe have similar size, proportion of high hard assets, competitive positioning within their respective markets and diversification. This translates into a similar credit rating and thus, into a similar spread.
- Other adjustments to lower the spread must be made since HomeServe has faster growing FC and Revenues, and leverage (Debt to EBITDA) proposed for the LBO is lower, reducing the risk of default.

- Term Loan A at Swap + 400 bps (1.1x EBITDA)
- Term Loan B at Swap + 450 bps (1.8x EBITDA)
- Term Loan C at Swap + 425bps (1.6x EBITDA)

Valuation of HomeServe

A sum-of-the-parts valuation and DCF valuation suggest an EV of £2,918.1m and an EV/EBITDA multiple of 10.5x

Methodology



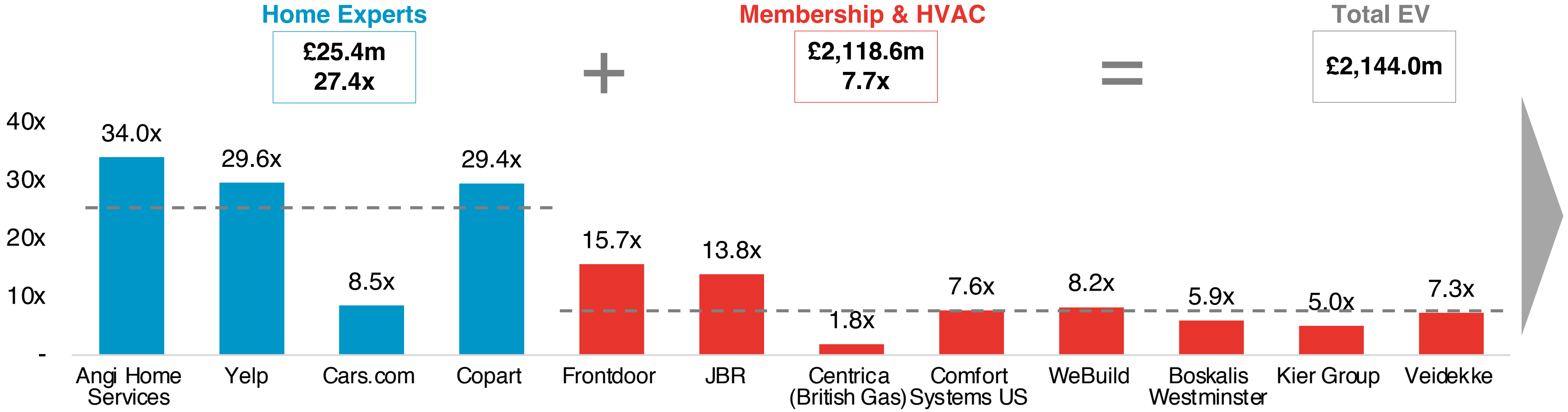
Methodology	EV/EBITDA FY20	Key Comments
Precedent Transactions[1)]	**Home Experts:** **14.3x** (12.2x – 16.3x) **Membership & HVAC:** **9.8x** (8.9x – 10.8x)	• For the Home Experts business, **6 precedent transactions within the according sector Internet Media & Services** were chosen, while **6 precedent transactions from the Home Repair & Construction sector** were selected for the valuation of the Membership & HVAC business.
Trading Comps [1)]	**Home Experts:** **27.4x** (24.2x – 30.7x) **Membership & HVAC:** **7.7x** (5.7x – 9.6x)	• **4 comparable** were selected for the valuation of **Home Experts** and **8 companies** for the **Membership & HVAC** business line. • The multiples of Home Experts' peer group range from 8.5x – 34.0x, while the multiples of the Membership & HVAC peer group range from 1.8x – 15.7x.
DCF (WACC 8.8%)[1)]	**13.3x** 13.1x – 13.6x	• The DCF valuation is based on the **average WACC of the comparable companies**, amounting to **10.2%**. It was performed using the **Gordon Growth Model** with terminal growth rates ranging between 0.8% – 1.2%. • This valuation results in the highest Enterprise Value.
DCF (WACC 10.2%) [1)]	**11.2x** 11.0x – 11.4x	• The second DCF valuation uses Bloomberg's available information of HomeServe, namely a **WACC of 8.8%.** • It uses the same terminal growth rates ranging between 0.8% – 1.2%.

Note: [1)] See further details in Appendix X - XII.

Trading Comparable Valuation

A sum-of-the-parts valuation was conducted for both valuation methodologies

Trading Comps



- A Sum-of-the-Parts Valuation was performed using different comparable companies for Home Experts and Membership & HVAC, resulting in a multiple of **27.4x for Home Experts** and **7.7x for Membership & HVAC**.
- Both Valuations sum up to a total **Enterprise Value of £2,144.0 m.**

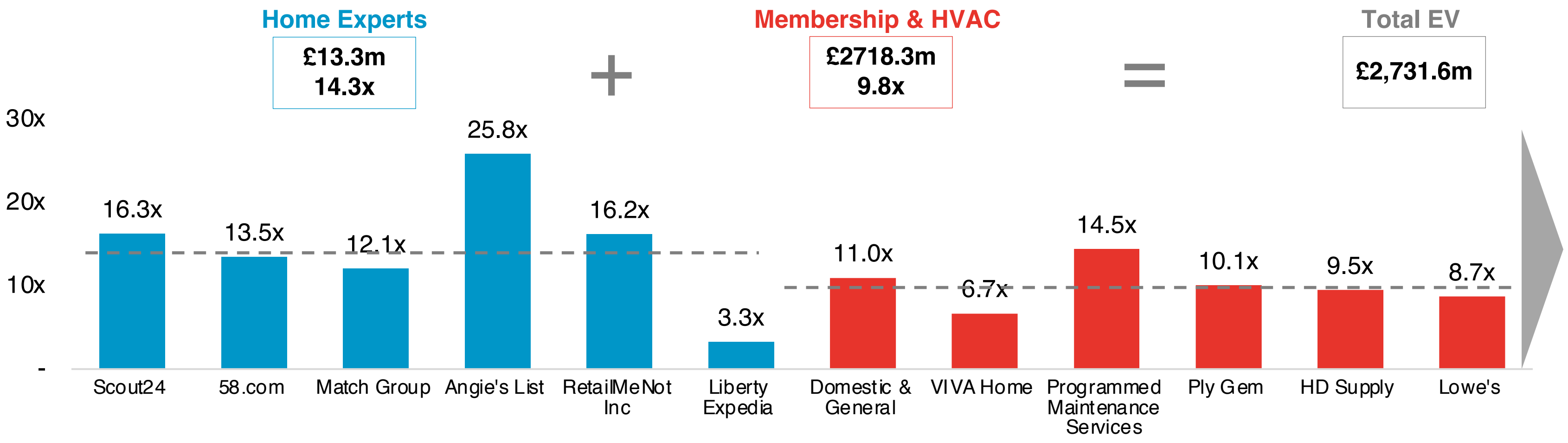
Membership & HVAC Precedent Transactions

Target	Industry	Announce date	Revenues	TV	TV/Revenues	TV/EBITDA
Domestic & General	Home Tools & Services (Primary)	25/07/2019	810	1,108	1.4x	11.0x
VIVA Home Corp	Home Tools & Services	09/06/2020	1,294	709	0.6x	6.7x
Programmed Maintenance Services	Home Tools & Services (Primary)	14/07/2019	1,642	573	0.3x	14.5x
Ply Gem Holdings	Home Tools & Services	31/01/2018	1,521	1,956	1.3x	10.1x
HD Supply Holdings	Home Tools & Services	16/11/2020	4,700	6,118	1.3x	9.5x
Lowe's Companies Inc	Home Tool & Services (Primary)	23/05/2018	58,238	54,413	0.9x	8.7x
75% Quartile					**1.3x**	**10.8x**
25% Quartile					**0.7x**	**8.9x**

Precedent Transactions Valuation

A sum-of-the-parts valuation was conducted for both valuation methodologies

Precedent Transactions



- The same Sum-of-the-Parts Valuation was performed with precedent transactions, resulting in a multiple of **14.3x for Home Experts** and **9.8x for Membership & HVAC**.
- Both Valuations sum up to a total **Enterprise Value of £2,731.6 m**.

Membership & HVAC Trading Comparables

Target	Industry	Market Capitalization	Revenues	EBITDA	EV/Revenues	EV/EBITDA
Frontdoor	Home Tools & Services (Primary)	2,946	1,139	210	2.9x	15.7x
Japan Best Rescue	Home Tools & Services (Primary)	201	90	11	1.7x	13.8x
Centrica (British Gas)	Home Tools & Services (Primary)	2,649	21,801	3,671	0.3x	1.8x
Comfort Systems	Home Tools & Services (Primary)	1,449	2,258	215	0.7x	7.6x
WeBuild	Construction	1,040	3,814	331	0.7x	8.2x
Boskalis Westminster	Construction	2,387	2,318	391	1.0x	5.9x
Kier Group	Construction	116	3,423	124	0.2x	5.0x
Veidekke	Construction	1,498	3,099	148	0.3x	7.3x
75% Quartile					**1.2x**	**9.6x**
25% Quartile					**0.3x**	**5.7x**

How PE firms perform throughout and after the GFC and what they can do better now

PE industry learned some important lessons during the GFC, that can be applied during this new economic downturn resulting in better returns for PE firms.

Even though the PE industry is relatively young, it is old enough to remember the impact of the Great Financial Crisis over IRRs and MM and prepared itself for the next economic downturn. Senior leadership of many PE firms is populated by managers that during GFC were at the middle stage of their careers, and for whom the lesson is still fresh. Moreover, today the deployable capital available to PE firms is almost double the period before the start of the GFC (800B in 2007, 1.4T in 2020). It is important to notice that as the McKinsey report shows, during the GFC PE firms with portfolio value-creation teams outperformed throughout and after the crisis the PE firms without. Indeed, not only they were able to achieve 5% more in IRR during the crisis but also to raise more capital after the crisis, fund with value-creation teams saw fund size rise by 53 percent in the post-crisis years, while those without experienced 15 percent further declines in fund size. According to EY PE's best returns tend to follow recessionary periods. Data shows that median IRRs for global buyout funds were lower before both the 2000 and 2007 crisis, and higher during both the recoveries as PE firms were able to deploy capital in a period of low valuation multiples. Despite data shows higher IRRs after the 2007 crisis, in the period between 2007 and 2009 the acquisition done by PE fell almost 80%. PE firms were more actively supporting the existing investments than in pursuing new opportunities. Therefore, during the last recession, the industry missed an important opportunity to acquire valuable assets at deep discounts. In the last several years valuations in the PE industry are already exceeding the peak of the GFC, but investment decisions are more comprehensive in risk consideration. After the GFC, PE firms refocused their investment on noncyclical industries such as technology and business services, and the whole industry remained disciplined from a debt point of view, with an average debt ratio of 6.0x EBITDA among the industry. In conclusion, considering the lessons learned during the GFC, Private Equity firms are now able to take those opportunities, such as buy company at lower multiple in distress sectors, that they were not able to exploit during both the 2000 and 2007 crisis.

Sources: McKinsey: Lessons for private equity from the last downturn. EY: Why private equity can endure the next economic downturn.

Appendix

Appendix I | Revenue Streams

Membership

Intermediary Commissions

Includes commissions paid by the insurance underwriters for the obligation to sell policies, handle claims and provide administration services.

HomeServe acts as an intermediary between customers and underwriters. The company collects the cash from the membership monthly fees and keeps a percentage as a commission for selling the insurance policy.

HomeServe also receives a fee for the claims handling and administration services from the underwriters

Home Assistance

Includes all the home assistance services (such as repair network access, emergency assistance and non-urgent engineer visits) provided by HomeServe to the insured customer. The cost of the repair is covered by the insurance.

Repair Income

HomeServe offers repair services that might go beyond the scope of the insurance coverage and are subject to separate contractual arrangements. Consequently, they are recognised as a different revenue stream.

HVAC

Installation Services

Includes Heating, Ventilation and Air Conditioning installations. HomeServe offers customers the opportunity to replace HVAC units as well as repair and service them.

Home Expert

Lead Generation

Tradespeople pay a fee to acquire a potential lead. (i.e. on Habitissimo platform, up to 4 tradespeople can bid for a lead). Habitissimo and eLocal platforms are currently using this business model.

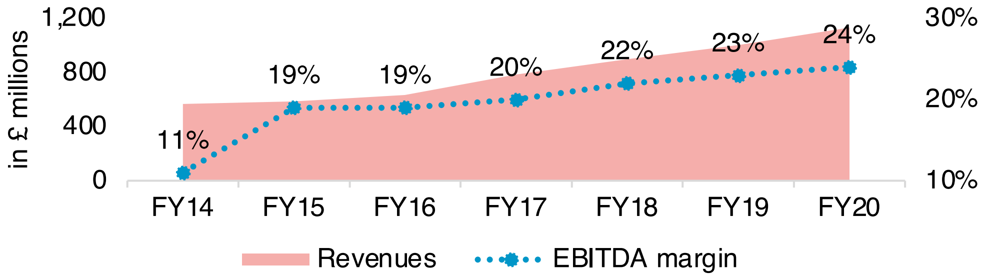
Web and directory

Tradespeople pay membership fees to be displayed on HomeServe's marketplaces and for directory advertising. Checkatrade platform is currently using this business model.

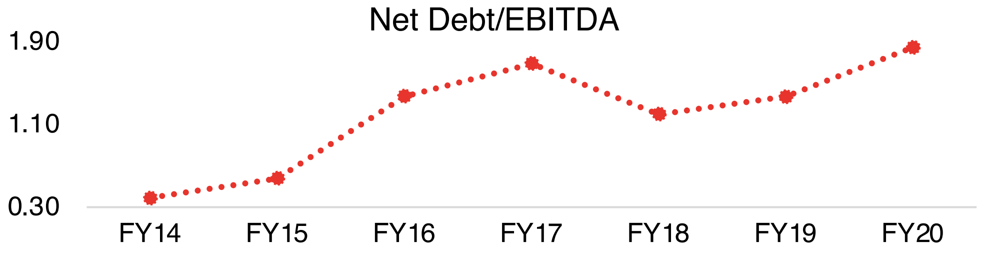
Appendix II I Income Statement

1

Revenue
Increasing the income per customer and entering in new markets were the two key pillars pursued by HomeServe to increase revenues along years. This strategy mixed with the ability to lower operating expenses (as % over revenues) from 60% in FY14 to 44% in FY2020 determined an increase of the EBITDA Margin by 5% from FY15 onward.



Net Debt/EBITDA
Net Debt/EBITDA increases along years maintaining HomeServe's target between 1-2x adjusted EBITDA. The decrease in 2018 is due to a significant debt repayment of £226.5 m.

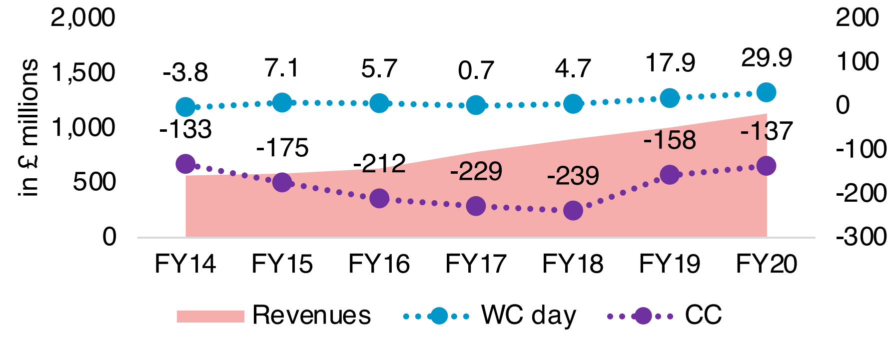


Income Statement (in £ m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
Revenues 1	**568.30**	**584.20**	**633.20**	**785.00**	**899.70**	**1,003.60**	**1,132.30**
Revenues Growth		*3%*	*8%*	*24%*	*15%*	*12%*	*13%*
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
Gross Profit	**270.2**	**251.7**	**277.1**	**357.0**	**424.3**	**478.1**	**543.2**
Gross margin	*48%*	*43%*	*44%*	*45%*	*47%*	*48%*	*48%*
SG&A	(210.0)	(140.6)	(154.4)	(203.0)	(227.7)	(251.3)	(273.4)
Share of results of equity accounted investments	-	-	-	0.2	1.0	(0.3)	(2.1)
EBITDA	**60.20**	**111.10**	**122.70**	**154.20**	**197.60**	**226.50**	**267.70**
EBITDA margin	*11%*	*19%*	*19%*	*20%*	*22%*	*23%*	*24%*
Depreciation	(4.9)	(4.6)	(5.4)	(6.9)	(8)	(9.1)	(23.5)
Amortisation	(28.1)	(27.4)	(30.4)	(42.6)	(54.6)	(64.8)	(85.6)
EBIT	**27.20**	**79.10**	**86.90**	**104.70**	**135.00**	**152.60**	**158.60**
EBIT margin	*5%*	*14%*	*14%*	*13%*	*15%*	*15%*	*14%*
Investment income	0.5	0.2	0.3	0.3	0.1	0.2	0.5
Finance costs	(3.3)	(2.6)	(4.6)	(6.7)	(11.8)	(13.3)	(21.2)
Profit Before Tax	**24.40**	**76.70**	**82.60**	**98.30**	**123.30**	**139.50**	**137.90**
Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
Net Income	10.00	56.10	61.60	74.40	95.90	108.30	105.80
Profit margin	*2%*	*10%*	*10%*	*9%*	*11%*	*11%*	*9%*

Appendix III I Balance Sheet

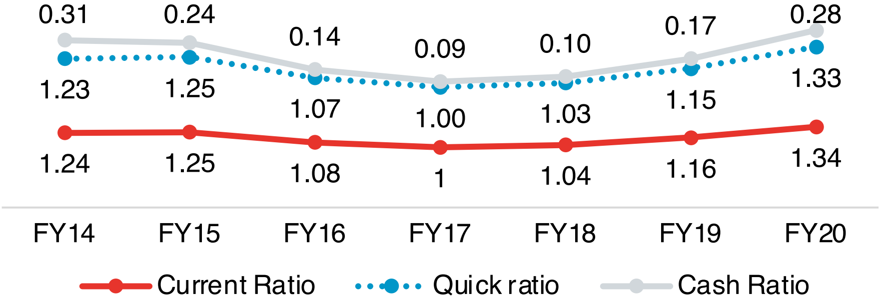
1

Day Working Capital & Cash Conversion Cycle
The rise in Receivables – not offset by an increase in Payables – has increased the HomeServe WC days and Cash Conversion Cycle. Despite this increase HomeServe is still be able to convert quickly its working capital in revenue.



2

Liquidity Analysis
HomeServe liquidity position is currently good. Current Ratio and Quick Ratio are above 1 and improving. HomeServe shoud not have problem to meet its short term obbligations in the near future.



Balance Sheet (in £ M)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Goodwill	246.3	236.6	247.7	301.9	386.6	407.9	509.9
Other intangible assets	156.9	166.5	210	288.6	384.8	418.6	497.1
Contract costs	0	0	0	0	0	27.5	16.8
Right-of-use assets	0	0	0	0	0	0	56.8
Property, plant and equipment	30	31.3	34.9	37	39.9	42.8	42
Equity accounted investments	0	0	0	32.1	5.5	10.6	4
Other investments	0	4.4	7.8	8.5	8.7	9.2	5.6
Deferred tax assets	7.2	9.5	6.8	7.6	6.8	7.4	6
Retirement benefit assets	1.2	0.1	2.1	0.7	4.7	6.4	10.3
Non-current assets:	**441.6**	**448.4**	**509.3**	**676.4**	**837**	**930.4**	**1148.5**
Inventories	0.7	0.8	2.9	2.7	4.3	7	7.9
Trade and other receivables	290.6	318,8	367.7	455.1	515.7	424.6	495.4
Cash and cash equivalents	96.2	74.7	54.2	46.2	57.8	72.6	131.2
Current assets:	**387.5**	**394.3**	**424.8**	**504**	**577.8**	**504.2**	**634.5**
Total assets	**829.1**	**842.7**	**934.1**	**1,180.4**	**1414.8**	**1,434.6**	**1,783**
Trade and other payables	(297)	(308)	(361)	(456)	(509)	(382)	(411)
Bank and other loans	0	0	(25)	(36)	(38)	(40)	(40)
Current tax liabilities	(8)	(7)	(7)	(9)	(10)	(6)	(5)
Lease liabilities	0	0	0	0	0	(1)	(14)
Obligations under finance leases	(1)	(1)	0	0	0	0	0
Provisions	(8)	0	(1)	(1)	(1)	(6)	(2)
Current liabilities:	**(313)**	**(316)**	**(394)**	**(502)**	**(557)**	**(434)**	**(472)**
Net current assets	74	78	31	2	20	70	162
Bank and other loans	(137)	(138)	(197)	(270)	(257)	(336)	(541)
Other financial liabilities	(3)	(2)	(6)	(14)	(23)	(23)	(52)
Deferred tax liabilities	(22)	(18)	(21)	(23)	(26)	(26)	(26)
Lease liabilities	(1)	(1)	(1)	(1)	(0)	(1)	(45)
Non-current liabilities	**(163)**	**(158)**	**(224)**	**(309)**	**(306)**	**(387)**	**(664)**
Total liabilities	**(476)**	**(474)**	**(618)**	**(810)**	**(863)**	**(821)**	**(1,137)**
Net assets	352.9	368.5	316.6	370	551.4	613.6	646.3
Equity							
Share capital	8.3	8.3	8.3	8.4	8.9	9	9
Share premium account	38.6	40.5	41.1	45.7	171.8	180.7	189.3
Share incentive reserve	14.4	15.7	16	18.3	22.1	23.3	21.9
Currency translation reserve	2.3	(9.3)	5.5	26.3	16.1	22.9	37
Investment revaluation reserve	0	0	1.8	1.8	1.8	2.3	(0.6)
Other reserves	56.3	61.1	72.1	72.2	82.2	82.2	79.2
Retained earnings	233	252.2	171.8	196.5	248.1	293	299.9
Attributable to equity holders of the parent	352.9	368.5	316.6	369.2	551	613.4	635.7
Non-controlling interests	0	0	0	0.8	0.4	0.2	10.6
Total equity	**352.9**	**368.5**	**316.6**	**370**	**551.4**	**613.6**	**646.3**

Appendix IV I Home Experts Precedent Transactions and Trading Comparable

Home Experts Trading Comparbles

Target	Industry	Market Capitalization	Revenues	EBITDA	EV/Revenues	EV/EBITDA
Angi Home Services	Marketplace (Primary)	4,289	1,122	123	3.7x	34.0x
Yelp	Marketplace (Primary)	1,823	713	52	2.1x	29.6x
Cars.com	Marketplace	551	429	115	2.3x	8.5x
Copart	Marketplace	20,342	1,658	689	12.2x	29.4x
75% Quartile					**5.9x**	**30.7x**
25% Quartile					**2.2x**	**24.2x**

Home Experts Precedent Transactions

Target	Industry	Announce date	Revenues	TV	TV/ Revenues	TV/EBITDA
Scout24 AG	Marketplace	21/06/2017	442	3,386	7.7x	16.3x
58.Com Inc	Marketplace (Primary)	15/06/2020	1,732	454	0.3x	13.5x
Match Group Inc/old	Marketplace	19/12/2019	3,738	8,074	2.2x	12.1x
Angie´s List Inc	Marketplace (Primary)	01/05/2017	277	223	0.8x	25.8x
RetailMeNot Inc	Marketplace	10/04/2017	221	373	1.7x	16.2x
Liberty Expedia Holdings	Marketplace	16/04/2019	8,637	4,199	0.5x	3.3x
75% Quartile					**2.0x**	**16.3x**
25% Quartile					**0.6x**	**12.4x**

Appendix V I DCF Valuation (1/2)

DCF – WACC 10.2%

Assumptions	
WACC	10.2%
Perpetual growth rate	1.0%*
Transaction Date	31/12/2020
Fiscal Year End	31/03/2020

** US Inflation Rate*

WACC comparables	
Angi HomeServices	8.1%
Bokalis Westminster	8.7%
Veidekke ASA	13.1%
Frontdoor	6.3%
Japan Best Rescue System	16.3%
Comfort System USA	8.4%
WACC Average	**10.2%**

Source: Bloomberg

	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	TV
Date	31/12/20	31/03/21	31/03/22	31/03/23	31/03/24	31/03/25	31/03/26	31/03/27	
Time Periods	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	
Year Fraction		*0.25*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	
EBITDA	**277**	**340**	**417**	**499**	**588**	**667**	**734**	**812**	
Adjustments:									
- Change in NWC		(7)	(44)	(52)	(62)	(65)	(32)	(38)	
- Tax		(25)	(34)	(42)	(50)	(56)	(59)	(56)	
- Maintenance Capex		(70)	(83)	(99)	(117)	(133)	(146)	(161)	
- Expansion Capex		(75)	(114)	(136)	(160)	(182)	(200)	(222)	
Unlev. FCF		**163**	**143**	**170**	**198**	**231**	**297**	**335**	**3,698**
WACC		10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	
DCF	**3,103.6**	**3,016.5**	**3,179.7**	**3,332.6**	**3,472.5**	**3,593.5**	**3,661.3**	**3,698.0**	

Intrinsic Value	
Levered EV	**3,103.6**
EBITDA	277.4
EV/EBITDA	11.2x

DCF – WACC 8.8%

Assumptions	
WACC	8.8%
Perpetual growth rate	1.0%*
Transaction Date	31/12/2020
Fiscal Year End	31/03/2020

** US Inflation Rate*
Source: Bloomberg

	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	TV
Date	31/12/20	31/03/21	31/03/22	31/03/23	31/03/24	31/03/25	31/03/26	31/03/27	
Time Periods	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	
Year Fraction		*0.25*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	
EBITDA	**277**	**340**	**417**	**499**	**588**	**667**	**734**	**812**	
Adjustments:									
- Change in NWC		(7)	(44)	(52)	(62)	(65)	(32)	(38)	
- Tax		(25)	(34)	(42)	(50)	(56)	(59)	(56)	
- Maintenance Capex		(70)	(83)	(99)	(117)	(133)	(146)	(161)	
- Expansion Capex		(75)	(114)	(136)	(160)	(182)	(200)	(222)	
Unlev. FCF		**163**	**143**	**170**	**198**	**231**	**297**	**335**	**4,338**
WACC		10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	
DCF	**3,690.4**	**3,606.1**	**3,780.4**	**3,943.3**	**4,091.9**	**4,220.6**	**4,295.0**	**4,338.0**	

Intrinsic Value	
Levered EV	**3,690.4**
EBITDA	277.4
EV/EBITDA	13.3x

Appendix VI I DCF Valuation – Sensitivity Analysis (2/2)

DCF – WACC 10.2%

Terminal Value

WACC	3,698.0	0.8%	0.9%	1.0%	1.1%	1.2%
	9.8%	3,773.1	3,819.5	3,867.0	3,915.6	3,965.3
	10.0%	3,690.6	3,735.1	3,780.6	3,827.1	3,874.7
	10.2%	3,611.7	3,654.4	3,698.0	3,742.5	3,788.1
	10.4%	3,536.0	3,577.0	3,618.9	3,661.6	3,705.3
	10.6%	3,463.5	3,502.9	3,543.1	3,584.1	3,626.0

(Column headers: growth rate g)

Highest Quartile (75%) 3,788.07
Lowest Quartile (25%) 3,611.68

Levered Enterprise Value

WACC	3,103.6	0.8%	0.9%	1.0%	1.1%	1.2%
	9.8%	3,152.8	3,178.3	3,204.4	3,231.0	3,258.3
	10.0%	3,103.6	3,127.9	3,152.8	3,178.3	3,204.4
	10.2%	3,056.5	3,079.8	3,103.6	3,127.9	3,152.8
	10.4%	3,011.3	3,033.6	3,056.5	3,079.8	3,103.6
	10.6%	2,968.0	2,989.4	3,011.3	3,033.6	3,056.5

(Column headers: growth rate g)

Highest Quartile (75%) 3,152.85
Lowest Quartile (25%) 3,056.45

EV/EBITDA

Value	11.2x
Low	11.0x
High	11.4x

DCF – WACC 8.8%

Terminal Value

WACC	4,338.0	0.8%	0.9%	1.0%	1.1%	1.2%
	8.4%	4,443.3	4,507.0	4,572.5	4,639.7	4,708.8
	8.6%	4,329.4	4,390.0	4,452.1	4,516.0	4,581.5
	8.8%	4,221.2	4,278.8	4,338.0	4,398.7	4,461.0
	9.0%	4,118.2	4,173.2	4,229.5	4,287.3	4,346.6
	9.2%	4,020.1	4,072.6	4,126.4	4,181.5	4,237.9

(Column headers: growth rate g)

Highest Quartile (75%) 4,460.95
Lowest Quartile (25%) 4,221.16

Levered Enterprise Value

WACC	3,690.4	0.8%	0.9%	1.0%	1.1%	1.2%
	8.4%	3,763.0	3,800.8	3,839.5	3,879.4	3,920.3
	8.6%	3,690.4	3,726.3	3,763.0	3,800.8	3,839.5
	8.8%	3,621.5	3,655.5	3,690.4	3,726.3	3,763.0
	9.0%	3,555.9	3,588.3	3,621.5	3,655.5	3,690.4
	9.2%	3,493.4	3,524.3	3,555.9	3,588.3	3,621.5

(Column headers: growth rate g)

Highest Quartile (75%) 3,763.03
Lowest Quartile (25%) 3,621.47

EV/EBITDA

Value	13.3x
Low	13.1x
High	13.6x

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